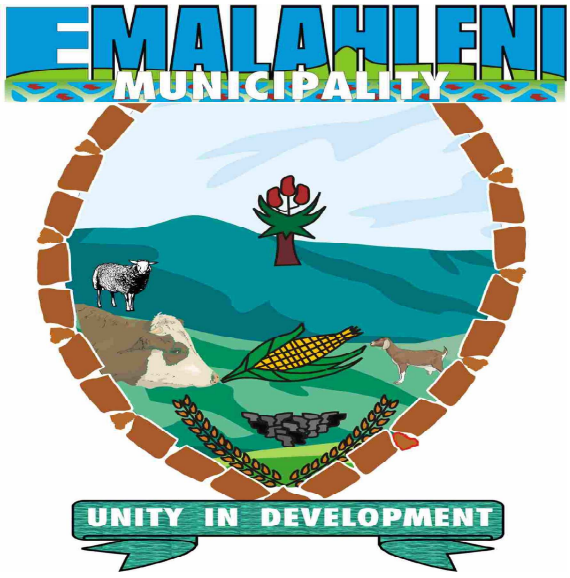

Emalahleni Municipality

Annual Financial Statements
for the year ended 30 June 2010

General Information

Nature of business and principal activities	Service delivery
Accounting Officer	Mr N J Kwepile
Chief Finance Officer (CFO)	Ms M Ludick
Registered office	37 Indwe Road LADY FRERE 5410
Bankers	Standard Bank
Auditors	Office of the Auditor General
Attorneys	Smith Tabata Kirchmanns
Contact numbers	Tel: (047) 878 0020 Fax: (047) 878 0112

Index

Index	Page
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Accounting Policies	8 - 22
Notes to the Annual Financial Statements	23 - 52
Appendixes:	
Appendix A: Schedule of External loans	
Appendix B: Analysis of Property, Plant and Equipment	
Appendix C: Segmental analysis of Property, Plant and Equipment	
Appendix D: Segmental Statement of Financial Performance	
Appendix E(1): Actual versus Budget (Revenue and Expenditure)	
Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)	
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	

Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 52, in terms of Section 126 (1) of the Municipal Finance Managment Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any as disclosed in note 29 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this act.

Mr. N. J. Kwepile

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009	
Assets				
Current Assets				
Inventories	9	247 775	227 193	GRAP1.79
Operating lease asset		10 381	-	GRAP1.84
Trade and other receivables from exchange transactions	10	821 770	287 098	GRAP1.79
Other receivables from non-exchange transactions	11	29 625 528	27 658 400	GRAP1.79
VAT receivable	12	3 069 768	-	GRAP1
Prepayments	8	7 204 905	-	GRAP1.84
Consumer debtors	13	3 708 058	8 438 674	Budget fo
Cash and cash equivalents	14	40 382 078	49 717 643	GRAP1.79
		85 070 263	**86 329 008**	
Non-Current Assets				
Investment property	3	-	-	GRAP1.79
Property, plant and equipment	4	191 083 522	76 464 350	GRAP1.79
Intangible assets	5	250 000	250 000	GRAP1.79
		191 333 522	**76 714 350**	
Non-Current Assets		191 333 522	76 714 350	
Current Assets		85 070 263	86 329 008	
Total Assets		**276 403 785**	**163 043 358**	
Liabilities				
Current Liabilities				
Finance lease obligation	15	103 937	74 869	GRAP1.84
Trade and other payables from exchange transactions	18	5 018 602	3 519 400	GRAP1.79
VAT payable	19	-	2 088 225	GRAP1
Consumer deposits	20	34 751	38 401	Budget fo
Retirement benefit obligation	7	-	202 363	GRAP1.84
Unspent conditional grants and receipts	16	17 159 745	20 498 299	GRAP1.84
Provisions	17	9 791 512	9 703 419	GRAP1.79
		32 108 547	**36 124 976**	
Non-Current Liabilities				
Finance lease obligation	15	95 505	199 442	
Retirement benefit obligation	7	1 218 637	16 536 454	IAS1.68
		1 314 142	**16 735 896**	
Non-Current Liabilities		1 314 142	16 735 896	
Current Liabilities		32 108 547	36 124 976	
Liabilities of disposal groups		-	-	
Total Liabilities		**33 422 689**	**52 860 872**	
Assets		276 403 785	163 043 358	
Liabilities		(33 422 689)	(52 860 872)	
Net Assets		**242 981 096**	**110 182 486**	
Net Assets				
Accumulated surplus		242 981 096	110 182 486	IAS16.39

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue			
Property rates	23	3 065 433	1 961 120
Service charges	24	5 686 358	5 038 067
Rental of facilities and equipment	33	431 047	509 281
Interest received - outstanding receivables		365 013	1 366 771
Interest received - external investments	31	2 386 558	3 909 693
Government grants & subsidies	25	72 935 857	49 175 066
Administration and management fees received	26	1 109 697	1 871
Commissions received	26	218 240	185 733
Other income	26	4 103 359	249 772
Dividends received	31	-	9 830
Total Revenue		**90 301 562**	**62 407 204**
Expenditure			
Employee related costs	28	(3 194 034)	(15 859 097)
Remuneration of councillors	29	(5 933 633)	(5 741 550)
Administration and management fees paid		(38 822)	(287 195)
Finance costs	32	(46 784)	(1 476 576)
Debt impairment	30	(12 360 140)	2 785 442
Repairs and maintenance		(1 350 913)	(1 725 430)
Bulk purchases	34	(5 062 196)	(4 114 266)
General Expenses	27	(9 369 283)	(7 847 296)
Operating grant expenditure		(3 842 953)	(10 354 242)
Total Expenditure		**(41 198 758)**	**(44 620 210)**
Revenue		90 301 562	62 407 204
Expenditure		(41 198 758)	(44 620 210)
Surplus for the year		**49 102 804**	**17 786 994**

Statement of Changes in Net Assets

Figures in Rand		Capital replacement reserve	Government grant reserve	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported		20 000 000	48 023 823	68 023 823	17 862 062	85 885 885
Adjustments						
Prior year adjustments	39	-	-	-	(18 780)	(18 780)
Balance at 01 July 2008 as restated		**20 000 000**	**48 023 823**	**68 023 823**	**17 843 282**	**85 867 105**
Changes in net assets						
Surplus for the year		-	-	-	17 786 994	17 786 994
Adjustment - reserves transferred to accumulated surplus		(20 000 000)	(48 023 823)	(68 023 823)	68 023 823	-
Asset take-on	4	-	-	-	6 528 387	6 528 387
Total changes		(20 000 000)	(48 023 823)	(68 023 823)	92 339 204	24 315 381
Balance at 01 July 2009		**-**	**-**	**-**	**110 182 490**	**110 182 490**
Changes in net assets						
Surplus for the year		-	-	-	49 102 804	49 102 804
Asset take-on	4	-	-	-	83 695 802	83 695 802
Total changes		-	-	-	132 798 606	132 798 606
Balance at 30 June 2010		**-**	**-**	**-**	**242 981 096**	**242 981 096**

Cash Flow Statement

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Grants		72 935 857	49 175 066
Interest income		2 751 571	3 909 693
Dividends received		-	9 830
Other receipts		11 684 957	3 944 009
		87 372 385	57 038 598
Payments			
Employee costs		(9 127 667)	(21 600 647)
Finance costs		(46 784)	(1 476 576)
Other payments		(56 535 259)	(16 338 024)
		(65 709 710)	(39 415 247)
Total receipts		87 372 385	57 038 598
Total payments		(65 709 710)	(39 415 247)
Net cash flows from operating activities	35	**21 662 675**	**17 623 351**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(30 923 367)	(10 411 630)
Non-cash movement - asset adjustments	4	-	45 145
Purchase of other intangible assets	5	-	(250 000)
Net cash flows from investing activities		**(30 923 367)**	**(10 616 485)**
Cash flows from financing activities			
Movement in loans to managers and employees		-	(84 849)
Finance lease payments		(74 869)	(83 710)
Net cash flows from financing activities		**(74 869)**	**(168 559)**
Net increase/(decrease) in cash and cash equivalents		**(9 335 561)**	**6 838 307**
Cash and cash equivalents at the beginning of the year		49 717 643	42 879 336
Cash and cash equivalents at the end of the year	14	**40 382 082**	**49 717 643**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act 56 of 2003).These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.
Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the municipality, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

The municipality elected to make use of the transtional provisions, contained in Directive 4, regarding the Standard of GRAP on

Accounting Policies

1.1 Investment property (continued)

Investment Property, issued by the Accounting Standards Board, whereby the municipality is not required to measure investment properties for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment Property.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained

1.2 Property, plant and equipment (continued)
earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2009. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 4. The transitional provision expires on 30 June 2011.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.3 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

1.3 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to other comprehensive income and accumulated in the revaluation surplus in equity, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to other comprehensive income as a decrease to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and to other comprehensive income under (a). If a revaluation is necessary, all assets of that class are revalued.

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

1.4 Intangible assets (continued)

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

The municipality elected to make use of the transtional provisions, contained in Directive 4, regarding the Standard of GRAP on Intangible assets, issued by the Accounting Standards Board, whereby the municipality is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets.

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset or a financial liability in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific

1.5 Financial instruments (continued)

inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit.

Loans to managers and employees

These financial assets are classified as loans and receivables.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Amortised cost is the initial carrying amount, less repayments, plus interest.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality’s accounting policy for borrowing costs.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other

1.5 Financial instruments (continued)

payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Accounting Policies

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability.The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Any contingent rents are expensed in the period they are incurred.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

Accounting Policies

1.7 Inventories (continued)

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

The municipality elected to make use of the transtional provisions, contained in Directive 4, regarding the Standard of GRAP on Inventories, issued by the Accounting Standards Board, whereby the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories.

1.8 Non-current assets held for sale (and) (disposal groups)

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.10 Employee benefits

Short-term employee benefits

Accounting Policies

1.10 Employee benefits (continued)

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. An annual charge to income is made to cover these liabilities.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.11 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2009. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

1.12 Revenue from exchange transactions (continued)

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Accounting Policies

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.14 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.15 Investment income

Accounting Policies

1.15 Investment income (continued)

Investment income is recognised on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.9. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote;
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Accounting Policies

1.20 Irregular expenditure (continued)

IIrregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Use of Estimates

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.22 Presentation of Currency

These annual financial statements are presented in South African Rand.

1.23 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.24 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

1.25 Conditional Grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.26 Going Concern

The financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

Figures in Rand	2010	2009

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted all new GAAP and GRAP standards and interpretations that are relevant to its operations and that became effective for the current financial year. The adopted standards and interpretations have not resulted in significant changes to the municipality's accounting policies or financial performance.

IFRS 7 (AC 144) Financial Instruments: Disclosures

IFRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the municipality's financial instruments.

The effective date of the standard is for years beginning on or after 01 January 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

May 2008 Annual Improvements to IFRS's: Amendments to IAS 39 (AC 133) Financial Instruments: Recognition and Measurement

IAS 39 (AC 133) prohibits the classification of financial instruments into or out of the fair value through profit or loss category after initial recognition. The amendments set out a number of changes in circumstances that are not considered to be reclassifications for this purpose.

The effective date of the amendment is for years beginning on or after 01 January 2009.

The municipality has adopted the amendment for the first time in the 2010 annual financial statements.

The impact of the amendment is not material.

Amendment to IAS 39 (AC 133) and IFRS 7 (AC 144): Reclassification of Financial Assets

The amendment permits an entity to reclassify certain financial assets out of the fair value through profit or loss category if certain stringent conditions are met. It also permits an entity to transfer from the available for sale category to loans and receivables under certain circumstances. Additional disclosures are required in the event of any of these reclassifications.

The effective date of the amendment is for years beginning on or after 01 July 2009.

The municipality has adopted the amendment for the first time in the 2010 annual financial statements.

The impact of the amendment is not material.

GRAP 5: Borrowing Costs

This Standard allows entities, in the exceptionally rare cases, to expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. This applies when it is inappropriate to capitalise borrowing costs.

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirement of an entity directly to the nature of the expenditure to be funded i.e. capital or current. In such cases, an entity shall expense those borrowing costs related to a qualifying asset directly to the statement of financial performance.

The following Directive also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires only prospective application of the Standard and only will apply to borrowing costs incurred on qualifying assets where the commencement date for capitalisation is on or after the effective date of the Standard.

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

GRAP 9: Revenue from Exchange Transactions

The definition of revenue in terms of GRAP 9 incorporates the concept of service potential. Revenue is the gross inflow of economic benefits or service potential when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Entities may derive revenue from exchange or non-exchange transactions.

An exchange transaction is one in which the entity receives resources or has liabilities extinguished, and directly gives approximately equal value to the other party in exchange.

Non-exchange revenue transaction is a transaction where an entity receives value from another entity without directly giving approximately equal value in exchange.

An entity recognises revenue when it is probable that economic benefits or service potential will flow to the entity, and the entity can measure the benefits reliably.

GRAP 9 clarifies that this Standard only applies to revenue from exchange transactions.

Other than terminology difference, no affect on initial adoption of Standard on GRAP 9.

The following Directive also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

GRAP 12: Inventories

GRAP 12 includes the definition of current replacement costs as the cost the entity would incur to acquire the asset on the reporting date. GRAP 12 also includes the principal of service potential associated with the item that will flow to the entity as part of recognition criteria for inventories as well as the concept of goods purchased or produced for distribution at no charge or for a nominal consideration, which is specific to the public sector.

Initial measurement is required at cost (an exchange transaction) and where inventories are acquired at no cost or nominal consideration (non-exchange transaction), their cost shall be their fair value at acquisition date.

Subsequent measurement shall be at lower of cost and net realisable value except if inventories are held for:

- distribution at no charge or for a nominal charge, or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

If the above applies then subsequent measurement shall be at the lower of cost or current replacement cost.

The retail method of measurement of cost is excluded from GRAP 12.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities are not required to measure inventories in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

2. New standards and interpretations (continued)

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

GRAP 13: Leases

GRAP 13 incorporates additional guidance on the concept of substance and legal form of a transaction, to illustrate the difference between lease and other contracts and on operating lease incentives.

In certain circumstances, legislation may prohibit the entering into certain types of lease agreements. If the entity has contravened these legislative requirements, the entity is still required to apply the requirements of GRAP 13.

Other than the abovementioned requirements, there is no other impact on the initial adoption of GRAP13.

The following Directives also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment or the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that Standard expires.

The effective date of the standard is for years beginning on or after 01 April 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 14: Events after the reporting date

An event, which could be favourable or unfavourable, that occurs between the reporting date and the date the annual financial statements are authorised for issue.

GRAP 14 requires the date of authorisation for issue is the date on which the annual financial statements have received approval from management to be issued to the executive authority or municipal council.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

An entity shall adjust the amounts recognised in its annual financial statements to reflect adjusting events after the reporting date.

An entity shall not adjust the amounts recognised in its annual financial statements to reflect non-adjusting events after the reporting date.

The effective date of the standard is for years beginning on or after 01 April 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 16: Investment Property

Investment property includes property held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of an entity's operations.

2. New standards and interpretations (continued)

GRAP 16 states that the use of property to provide housing as a social service does not qualify as investment property even though rentals are earned.

At initial recognition, investment property is measured at cost including transaction costs. However, where an entity acquires investment property through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

After initial recognition, entities can carry investment property at either the fair value (fair value model) or cost less accumulated depreciation and accumulated impairment (cost model).

An entity is required to disclose the fair value of investment property if the cost model is used. When an entity carries investment properties at fair value, the fair value needs to be determined at every reporting date. Gains or losses arising from changes in fair value are included in surplus or deficit for the period in which they arise.

The following Directive also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities are not required to measure investment properties in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 17: Property, Plant and Equipment

GRAP 17 does not require or prohibit the recognition of heritage assets but if an entity recognises heritage assets the entity needs to comply with GRAP 17 disclosure requirements.

Additional commentary has been included in to clarify the applicability of infrastructure assets to be recognised in terms of GRAP17.

Where an entity acquires an asset through a non-exchange transaction, i.e. for a nominal or no consideration, its cost is its fair value as at the date of acquisition.

The disclosure requirement for temporarily idle, fully depreciated property, plant and equipment and for property, plant and equipment that are retired from active use is required in GRAP 17 whereas IAS 16 only encourages this disclosure.

The following Directive also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities that applied the transitional provisions in the Standard of GAMAP on Property, Plant and Equipment may continue to take advantage of those transitional provisions until they expire. Entities are also not required to measure classes of Property, Plant and Equipment in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 19: Provisions, Contingent Liabilities and Contingent Assets

2. New standards and interpretations (continued)

GRAP 19 exclude from its scope those provisions and contingent liabilities arising from social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits.

For the purpose of GRAP 19, social benefits refers to goods, services and other benefits provided in the pursuit of the social policy objective of a government. This Standard includes guidance on the accounting of these social benefits.

Outflow of resources embodying service potential also needs to be considered in when assessing if a present obligation that arises from past events exists or not.

The Standard includes accounting for obligations to make additional contributions to a fund. This is similar to the requirements of IFRIC5 (AC438).

It further includes the accounting for the changes in existing decommissioning, restoration and similar liabilities. This is similar to the requirements of IFRIC1 (AC434).

GRAP 19 give specific guidance regarding restructuring by way of transfers that will take place under a government directive and will not involve binding agreements. An obligation exists only when there is a binding transfer agreement.

Additional disclosure for each class of provision regarding reductions in the carrying amounts of provisions that result from payments or other outflows of economic benefits or service potential made during the reporting period and reductions in the carrying amounts of provisions resulting from remeasurement of the estimated future outflow of economic benefits or service potential, or from settlement of the provisions without cost to the entity.

If an external valuation is use to measure a provision the information relating to the valuation can usefully be disclosed.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, where items have not been recognised as a result of transitional provisions under the Standard on Property, Plant and Equipment, the recognition requirements of the Standard on Provisions, Contingent Liabilities and Contingent Assets would not apply to such items until the transitional provisions in that Standard expire.

The effective date of the standard is for years beginning on or after 01 April 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 100: Non-current Assets Held for Sale and Discontinued Operations

GRAP 100 includes in its scope the reference to non-cash generating assets. It further includes definitions relevant to the understanding of the Standard e.g. “Non-cash-generating assets” are assets other than cash-generating assets and “value in use of a non-cash-generating asset” is the present value of the asset’s remaining service potential.

GRAP 100 excludes from the description of a discontinued operation reference to a subsidiary acquired exclusively with a view to resale.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires prospective application of the Standard. However, the Standard would not apply to those items that have not been recognised as a result of the transitional provisions under the Standards of GRAP on Inventories, Investment Property, Property, Plant and Equipment, Agriculture and Intangible Assets until the transitional provision in that Standard expires.

The effective date of the standard is for years beginning on or after 01 April 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 102: Intangible Assets

2. New standards and interpretations (continued)

GRAP 102 excludes guidance on accounting for intangible assets acquired as part of an entity combination and in-process research and development costs acquired in an entity combination.

Recognition requirement includes the concept of the probable flow of service potential.

GRAP 102 distinguishes between impairment loss of cash generating and non-cash-generating assets.

Intangible assets acquired at no or for a nominal cost shall be measured on acquisition date at its fair value.

In GRAP 102 the identifiability criterion in the definition of an intangible asset has been expanded to include contractual rights arising from binding arrangements, and to exclude rights granted by statute.

Additional guidance included in GRAP 102 to explain that distinction should be made between assets associated with the item of property, plant and equipment and the intangible asset.

Guidance on web site costs has been included in GRAP 102 from SIC Interpretation 32 Intangible Assets – Web Site Costs.

Guidance on intangible assets that may be acquired in exchange for non-monetary assets, where the exchange transaction lacks commercial substance has not been included in GRAP 102 as guidance to be included in GRAP 23.

GRAP 102 does not state “gains shall not be classified as revenue” as GRAP term “income” has a broader meaning than the term “revenue”.

Directive 4 - Transitional provisions for medium and low capacity requires retrospective application of the Standard. Where entities have, on initial adoption of the Standard, accumulated and retained sufficient information about costs and the future economic benefits or service potential related to intangible assets that may have been expensed previously, those intangible assets should be recognised in accordance with the Standard. Entities are not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible Assets.

The effective date of the standard is for years beginning on or after 01 April 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2010 or later periods:

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2010 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the entity. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the entity’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of

2. New standards and interpretations (continued)

Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of this standard is currently being assessed.

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the entity.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of this standard is currently being assessed.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the ‘Statement of Comparison of Budget and Actual Amounts’. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

2. New standards and interpretations (continued)

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of this standard is currently being assessed.

GRAP 103: Heritage Assets

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset’s heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset’s carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset’s carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset’s deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage

2. New standards and interpretations (continued)

asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 30 June 2011.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of this standard is currently being assessed.

3. Investment property

Reconciliation of investment property - 2010

	Opening Balance	Total
Investment property	-	-

Reconciliation of investment property - 2009

	Opening Balance	Total
Investment property	-	-

Transitional provisions

The municipality elected to make use of the transtional provisions, contained in Directive 4, regarding the Standard of GRAP on Investment Property, issued by the Accounting Standards Board, whereby the municipality is not required to measure investment properties for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment Property.

Investment properties have been identified, although the municipality is still engaged in the evaluation (measuring) process of these properties.

The municipality will be fully compliant with GRAP 16, Investment properties, by 30 June 2011.

4. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	48 145 924	-	48 145 924	10 450 000	-	10 450 000
Buildings	64 648 409	-	64 648 409	21 461 154	(4 698 762)	16 762 392
Infrastructure	55 199 427	(10 874 010)	44 325 417	52 986 739	(18 839 196)	34 147 543
Community	-	-	-	6 242 992	(1 695 644)	4 547 348
Other property, plant and equipment	11 666 871	(6 427 038)	5 239 833	10 047 674	(6 427 038)	3 620 636
Capital work in progress	28 723 939	-	28 723 939	6 936 431	-	6 936 431
Total	**208 384 570**	**(17 301 048)**	**191 083 522**	**108 124 990**	**(31 660 640)**	**76 464 350**

Reconciliation of property, plant and equipment - 2010

	Opening Balance	Additions	Transfers	Other changes, movements	Total
Land	10 450 000	66 914	-	37 629 010	48 145 924
Buildings	16 762 392	432 919	-	47 453 098	64 648 409
Infrastructure	34 147 543	80 398	6 936 431	3 161 045	44 325 417
Community	4 547 348	-	-	(4 547 348)	-
Other property, plant and equipment	3 620 636	1 619 197	-	-	5 239 833
Capital work in progress	6 936 431	28 723 939	(6 936 431)	-	28 723 939
	76 464 350	**30 923 367**	**-**	**83 695 805**	**191 083 522**

Reconciliation of property, plant and equipment - 2009

Figures in Rand	2010	2009

4. Property, plant and equipment (continued)

	Opening Balance	Additions	Other changes, movements	Total
Land	1 000 000	-	9 450 000	10 450 000
Buildings	16 271 441	490 951	-	16 762 392
Infrastructure	26 300 985	1 481 986	6 364 572	34 147 543
Community	3 361 756	1 185 592	-	4 547 348
Other property, plant and equipment	3 339 926	316 670	(35 960)	3 620 636
Capital work in progress	-	6 936 431	-	6 936 431
	50 274 108	**10 411 630**	**15 778 612**	**76 464 350**

Capitalised expenditure

Capital work in progress	28 275 841	6 936 431

Assets subject to finance lease (Net carrying amount)

Other property, plant and equipment	270 497	270 497

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The municipality had early adopted the high capacity reporting framework on 1 July 2007 and took advantage of the transitional provisions contained in GAMAP 17, Property, Plant and Equipment, as well as the exemptions regarding GAMAP 17 and IAS 36, Impairment of Assets, as contained in the Government Gazette 30013 of 29 June 2007. Furthermore, the municpality elected to make use of the transitional provisions i.t.o. GRAP 17, Property, Plant and Equipment, contained in Directive 4, on implementation thereof at 1 July 2008. The transitional provisions of GAMAP 17 and GRAP 17 (Directive 4) runs concurrently. The transitional provisions for GAMAP 17 expired on 30 June 2010 and the transitional provisions for GRAP 17 (Directive 4) expires on 30 June 2011.

The municipality has identified and recognised all property, plant and equipment.

Carrying amounts of property, plant and equipment are reflected at provisional amounts. The municipality is in the process of measuring / valuing all their property, plant and equipment. The electrical infrastructure assets as well as municipal land and buildings (incorporating community assets) have been valued and included in the fixed asset register, however the useful lives of certain of these assets still need to be estimated.

Due to the provisional carrying amounts and useful lives of assets that still need to be estimated, no depreciation has been calculated.

The municipality will be fully compliant with GRAP 17 by 30 June 2011.

Other changes and movements relate to identified assets that were taken on to the fixed asset register at revalued amounts. The prior year values of these assets were written out at carrying value. These adjustments were made against the Accumulated surplus.

A prior year adjustment was made to the landfill sites and finance lease equipment - refer to note 39.

Refer to Appendix B for more detail on property, plant and equipment.

5. Intangible assets

	2010			2009		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	250 000	-	250 000	250 000	-	250 000

5. Intangible assets (continued)

Reconciliation of intangible assets - 2010

	Opening Balance	Total
Computer software	250 000	250 000

Reconciliation of intangible assets - 2009

	Opening Balance	Additions	Total
Computer software	-	250 000	250 000

Transitional provisions

Intangible assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, the carrying amount of Intangible assets was recognised at provisional amounts.

The useful lives of intangible assets have not been asessed yet, therefore no amortisation has been calculated

The municipality will be fully compliant with GRAP 102, Intangible assets, by 30 June 2011.

6. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2010

	Loans and receivables	Non-financial assets	Total
Inventories	-	247 775	247 775
Operating lease asset	-	10 381	10 381
Trade and other receivables from exchange transactions	821 770	-	821 770
Other receivables from non-exchange transactions	37 109	29 588 419	29 625 528
VAT receivable	3 069 768	-	3 069 768
Prepayments	-	7 204 905	7 204 905
Consumer debtors	3 708 058	-	3 708 058
Cash and cash equivalents	40 382 078	-	40 382 078
Property, plant and equipment	-	191 083 522	191 083 522
Intangible assets	-	250 000	250 000
	48 018 783	**228 385 002**	**276 403 785**

2009

	Loans and receivables	Non-financial assets	Total
Inventories	227 193	-	227 193
Trade and other receivables from exchange transactions	287 098	-	287 098
Other receivables from non-exchange transactions	161 844	27 496 556	27 658 400
Consumer debtors	8 438 674	-	8 438 674
Cash and cash equivalents	49 717 643	-	49 717 643
Property, plant and equipment	-	76 464 350	76 464 350
Intangible assets	-	250 000	250 000
	58 832 452	**104 210 906**	**163 043 358**

Figures in Rand	2010	2009

7. Retirement benefits

Defined benefit plan

The plan is a post employment defined medical benefit plan.

Post retirement medical aid plan

These liabilities are in respect of 7 active members and 2 pensioners. One of the 7 active members was over the retirement age as at 30 June 2010 and it was assumed that she will retire immediately. The municipality makes monthly contributions for health care arrangements to the following medical aid schemes: Bonitas, LA Health, Key Health, Hosmed and SAMWU Medical Aid.

The PRMA subsidy is based on a maximum subsidy of R2 850.80. The maximum amount is based on a maximum subsidy of R2 850.80. The maximum amount is based on a 10.5% increase of the 2009 maximum amount of R2 579.91. The 10.5% increase is ito the SALGBC Salary & Wages Collective Agreement (Circular no 08/2009)

Pensionners & employees over 55 who have medical aid as of 1 July 2003 receive a 60% subsidy subject to the maximum amount. Employees over 50 who have medical aid as at 1 July 2003 receive a 50% subsidy subject to the maximum amount. (2009: the subsidy payable towards pensioners contribution was 70%)

Normal retirement age of employees is 65 years for males and 60 years for females. The average age of employees has increased from 45.2 years in 2009 to 62.8 years in 2010 as a result of a change in the subsidy policy whereby only employees over 50 years as at 1 July 2003 are entitled to PRMA.

The number of members eligible for a PRMA benefit has decreased from 113 members in 2009 to 9 members in 2010, resulting in a significant decrease in the PRMA obligation.

Additional text

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(16 738 817)	(16 738 817)
Adjustment of provision for Post-retirement medical aid	15 520 180	-
	(1 218 637)	**(16 738 817)**

PRMA obligation for the current financial year includes the effects of a revaluation of the provision for post-retirement medical aid resulting in a decrease of R15 520 180 in the Defined Benefit Obligation and total employee costs. The greatest effect was due to a change in the number of members eligible for a PRMA benefit decreasing from 113 members in 2009 to 9 members in 2010, resulting in a significant decrease in the PRMA obligation.

Non-current liabilities	(1 218 637)	(16 536 454)
Current liabilities	-	(202 363)
	(1 218 637)	**(16 738 817)**

The plan is a post employment defined medical benefit plan (Post-retirement medical assistance - PRMA) and the last valuatio was done by Deloitte & Touche Actuarial & Insurance Solutions usring the Projected Unit Credit Method.

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes: Bonitas, LA Health, Key Health and SAMWU Medical Aid.
In-service and continuation members will receive a post-retirement subsidy of 70% of the contribution payable. Widow(er)s of eligible in-service members will receive a 60% subsidy on and after the death in-service of an employee. Children are not entitled to ongoing post-employment medical aid subsidies.

Movements for the year

Opening balance	16 738 817	14 243 836
Adjustment of post retirement benefit obligation	(15 639 374)	-
Net expense recognised in the statement of financial performance	119 194	2 494 981

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

7. Retirement benefits (continued)

	1 218 637	**16 738 817**

Net expense recognised in the statement of financial performance

Past service cost	79 908	1 263 005
Interest cost	75 154	1 417 750
Employer contributions paid	(35 868)	(185 774)
	119 194	**2 494 981**

Key assumptions used

Assumptions used on last valuation on 30 June 2010.

Discount rates used	1,00 %	1,00 %
Consumer price inflation	4,20 %	3,50 %

IInvestment returns: The entire zero-coupon South African Bond Yield curve as at 30 June 2009 and 30 June 2008 was used in the valuation.

Medical inflation: 2.5% above the Consumer Price Index (CPI) for both years.

Normal retirement age: 65 years for males and 60 for females.

8. Prepayments

The municipality utilised own funds on certain of its conditional grant projects. The expenses incurred are recoverable from the different spheres of government, within the next financial year.

Grants recoverable		
Municipal Infrastructure Grant	6 157 532	-
Library Grant	29 405	-
Housing Grant	1 017 968	-
	7 204 905	**-**

9. Inventories

Consumable stores	247 775	227 193

The carrying value of stock is disclosed at cost.

10. Trade and other receivables from exchange transactions

Trade debtors	568 608	98 673
Recoverable fruitless and wasteful expenditure	76 116	78 001
Provision for debt impairment	(76 116)	-
Other receivables	253 162	110 424
	821 770	**287 098**

Reconciliation of provision for impairment of trade and other receivables

Opening balance	-	-
Provision for impairment	(76 116)	-
	(76 116)	**-**

Figures in Rand	2010	2009

10. Trade and other receivables from exchange transactions (continued)

The creation and release of provision for impaired receivables have been included in operating expenses in the statement of financial performance (note 30). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Trade and other receivables from exchange transactions are classified as financial assets: loans and receivables. No amortisation was applied. Fair value is estimated at cost.

11. Other receivables from non-exchange transactions

Chris Hani agency account	29 588 419	27 496 556
Other receivables	37 109	161 844
	29 625 528	**27 658 400**

The municipality has raised a debtor for Chris Hani Districit Municipality. This debtor relates to the agency agreement between Emalahleni Municipality and Chris Hani District Municipality. This amount has not been confirmed by Chris Hani District Municipality at year end.

Other receivables consist of advances and study loans made to employees and managers. The debt bears no interest and is repayable within one year.

Amounts due by employees and managers consist of:

Amounts due by managers and employees		
Mayor (for difference in telephone allowance)	8 574	-
Housing officer	17 898	-
Employees (existing study loans)	10 637	-
	37 109	**-**

12. VAT receivable

VAT	3 069 768	-

Amounts payble and receivable to/from SARS relating to VAT have been off-set. These amounts are payable or receivable to/from the same entity (SARS) that also off-sets amounts payable and receivable to the municipality.

VAT is claimable on the receipts basis. VAT claimed from SARS only once payment is made on a tax invoice.

13. Consumer debtors

Gross balances		
Rates	10 047 877	9 479 517
Electricity	1 250 316	1 160 902
Refuse	15 108 448	14 951 321
Housing rental	175 675	186 915
Other	4 194 236	4 860 334
	30 776 552	**30 638 989**
Less: Provision for bad debts		
Rates	(8 924 655)	(8 778 363)
Electricity	(1 071 572)	(947 695)
Refuse	(13 361 022)	(12 474 257)
Other	(3 711 245)	-
	(27 068 494)	**(22 200 315)**

Figures in Rand	2010	2009
13. Consumer debtors (continued)		
Net balance		
Rates	1 123 222	701 154
Electricity	178 744	213 207
Refuse	1 747 426	2 477 064
Housing rental	175 675	186 915
Other	482 991	4 860 334
	3 708 058	**8 438 674**
Rates		
Current (0 -30 days)	277 075	40 523
31 - 60 days	258 863	119 390
61 - 90 days	249 938	142 686
91 - 120 days	245 327	141 747
121 - 365 days and older	9 016 674	9 035 170
	10 047 877	**9 479 516**
Electricity		
Current (0 -30 days)	36 028	36 974
31 - 60 days	38 768	21 884
61 - 90 days	52 719	25 622
91 - 120 days	16 867	23 036
121 - 365 days and older	1 105 934	1 053 386
	1 250 316	**1 160 902**
Refuse		
Current (0 -30 days)	237 711	222 545
31 - 60 days	226 857	208 608
61 - 90 days	222 606	294 785
91 - 120 days	190 674	290 997
121 - 365 days and older	14 230 600	13 934 386
	15 108 448	**14 951 321**
Housing rental		
121 - 365 days and older	175 675	186 915
Other		
121 - 365 days and older	4 194 236	4 860 334
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	536 625	299 601
31 - 60 days	510 484	349 495
61 - 90 days	511 271	462 873
91 - 120 days	438 846	455 559
121 - 365 days and older	28 661 096	28 980 599
	30 658 322	**30 548 127**
National and provincial government		
Current (0 -30 days)	14 189	442
31 - 60 days	14 004	386
61 - 90 days	13 993	221
91 - 120 days	14 022	221
121 - 365 days and older	62 022	89 592

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

13. Consumer debtors (continued)

	118 230	**90 862**

Reconciliation of provision for impairment of consumer debtors

Opening balance	(22 200 315)	(24 985 757)
Provision for impairment	(12 284 024)	2 785 442
Amounts written off as uncollectible	7 415 845	-
	(27 068 494)	**(22 200 315)**

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6 815	4 300
Bank balances	14 478 732	11 633 885
Short-term deposits	25 896 531	875 969
Other cash and cash equivalents	-	37 203 489
	40 382 078	**49 717 643**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**		**Cash book balances**	
	30 June 2010	**30 June 2009**	**30 June 2010**	**30 June 2009**
Standard Bank - Current Account - 082-665-958	13 778 803	10 986 066	13 778 803	10 986 066
Standard Bank - Current Account - 082-630-631	946 813	1 343 705	170 618	527 957
First National Bank - Current Account - 620-4898-6428	529 311	119 928	529 311	119 928
Total	**15 254 927**	**12 449 699**	**14 478 732**	**11 633 951**

15. Finance lease obligation

Minimum lease payments due		
- within one year	133 818	121 652
- in second to fifth year inclusive	103 112	236 931
- later than five years	-	-
	236 930	358 583
less: future finance charges	(37 488)	(84 272)
Present value of minimum lease payments	**199 442**	**274 311**
Present value of minimum lease payments due		
- within one year	103 937	74 869
- in second to fifth year inclusive	95 505	199 442
	199 442	**274 311**
Non-current liabilities	95 505	199 442
Current liabilities	103 937	74 869
	199 442	**274 311**

The lease term of the finance lease is 5 years and the average effective borrowing rate is 11.25%. Loan repayments are escalated by 10% annually.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grants	4 451 606	10 169 685
Other grants	10 296 382	10 268 738
Prepaid electricity sold - unused	61 757	59 876
Electricity grant	2 350 000	-
	17 159 745	**20 498 299**

Movement during the year

Balance at the beginning of the year	20 498 299	15 284 853
Additions during the year	26 472 241	22 901 542
Income recognition during the year	(34 539 111)	(17 747 972)
Balances transferred to current assets	7 182 085	-
Income accrued - transferred	(2 455 652)	-
Prepaid electricity sold - unused	1 883	59 876
	17 159 745	**20 498 299**

See Appendix F for a reconciliation of grants from National, Provincial and other spheres of Government.

These amounts are invested in a ring-fenced investment until utilised.

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Figures in Rand	2010	2009

17. Provisions

Reconciliation of provisions - 2010

	Opening Balance	Additions	Total
Environmental rehabilitation	9 450 000	-	9 450 000
Provision for pro-rata bonuses	253 419	88 093	341 512
	9 703 419	**88 093**	**9 791 512**

Reconciliation of provisions - 2009

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	-	9 450 000	-	9 450 000
Provision for performance bonusses	249 649	-	(249 649)	-
Pro-rata bonus	-	253 419	-	253 419
	249 649	**9 703 419**	**(249 649)**	**9 703 419**

Transitional provisions

Provisions recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, the provision for landfill site rehabilitation was recognised at provisional amounts.

The provision for the rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. The municipality is currently dumping waste at three sites in Indwe, Lady Fere and Dordrecht. All three of the current landfill sites are to be closed due to the fact that the sites are not specifically demarcated for waste disposal. Before any landfill site can be closed it needs to be permitted as per the Department of Water Affairs and Forestry's "Minimum Requirements for Waste Disposal by Landfill", Second Edition 1998, Chapter 2.3.4. None of the three aforementioned landfill sites has been permitted yet.

Due to the fact that all three of the landfill sites have to be closed within the short term, the full provision for landfill site rehabilitation has been allocated to current provisions.

The valuation of the provision for the landfill site rehabilitation has been performed by Munitech, a company of engineers which has specialist experience in the closure of landfill sites.

During the current financial year the district municipality, Chris Hani, has allocated funds to Emalahleni to demarcate the legal waste disposal areas. At year-end the demarcation process has not been started yet.

An adjustment was made to the comparative amount for the provision for landfill site rehabilitation - refer to note 39.

18. Trade and other payables from exchange transactions

Trade payables	1 496 381	2 858 323
Accrued leave	1 066 568	661 077
Other payables	2 455 653	-
	5 018 602	**3 519 400**

The fair value of trade and other payables approximates their carrying amounts.

19. VAT payable

VAT payables	-	2 088 225

Figures in Rand	2010	2009

19. Trade and other payables from exchange transactions (continued)

Amounts payble and receivable to/from SARS relating to VAT have been off-set. These amounts are payable or receivable to/from the same entity (SARS) that also off-sets amounts payable and receivable to the municipality.

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

20. Consumer deposits

Electricity	34 751	38 401

21. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2010

	Financial liabilities at amortised cost	Non-financial liabilities	Fair value through surplus or deficit - designated	Total
Finance lease obligation	-	199 442	-	199 442
Trade and other payables from exchange transactions	3 952 034	1 066 568	-	5 018 602
Retirement benefit obligation	-	1 218 637	-	1 218 637
Provisions	-	9 791 512	-	9 791 512
Consumer deposits	-	34 751	-	34 751
Deferred income / Unspent conditional grants and receipts	17 159 745	-	-	17 159 745
	21 111 779	**12 310 910**	**-**	**33 422 689**

2009

	Financial liabilities at amortised cost	Non-financial liabilities	Fair value through surplus or deficit - designated	Total
Finance lease obligation	-	274 311	-	274 311
Trade and other payables from exchange transactions	2 858 323	661 077	-	3 519 400
VAT payable	2 088 225	-	-	2 088 225
Retirement benefit obligation	-	16 738 817	-	16 738 817
Provisions	-	9 703 419	-	9 703 419
Consumer deposits	-	38 401	-	38 401
Deferred income / Unspent conditional grants and receipts	20 498 299	-	-	20 498 299
	25 444 847	**27 416 025**	**-**	**52 860 872**

22. Revenue

Property rates	3 065 433	1 961 120
Service charges	5 686 358	5 038 067
Rental of facilities & equipment	431 047	509 281
Government grants & subsidies	72 935 857	49 175 066
	82 118 695	**56 683 534**

Figures in Rand	2010	2009

22. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	5 686 358	5 038 067
Rental of facilities & equipment	431 047	509 281
	6 117 405	**5 547 348**
The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	3 065 433	1 961 120
Government grants & subsidies	72 935 857	49 175 066
	76 001 290	**51 136 186**

23. Property Rates

Rates received

Rateable properties	4 252 422	1 961 120
Less: Income forgone	(1 186 989)	-
	3 065 433	**1 961 120**

Valuations

All properties	748 640 332	201 534 659

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate is applied to property valuations to determine assessment rates, which vary according to the type of property. The assessment rates are as follows: Residential properties- 0.0059, Undeveloped land - 0.00885, Institutional properties - 0.0059, Business properties - 0.00885, Government properties - 0.00885, Agricultural land / properties - 0.001475, Public service properties - 0.001475 and Public benefit properties - 0.001475 (a single rate of 0.0191 was applied during the 2009 year). The following rebates are granted - the first R15 000 of residential properties are not rateable, 75% of agricultural land are not rateable and 30% of public service infrastructure is not rateable (No rebates were applicable during the 2009 financial year).

Rates are levied on an annual basis with the final date for payment being 30 June 2010 (30 June 2009). Interest at prime plus 1% per annum (2009: 1%), is levied on rates outstanding one month after due date.

The new general valuation will be implemented on 01 July 2013.

24. Service charges

Sale of electricity	3 310 595	2 797 205
Refuse removal	2 375 763	2 240 862
	5 686 358	**5 038 067**

25. Government grants and subsidies

Equitable share	42 105 211	31 427 093
Municipal Infrastructure Grant	26 470 400	8 015 800
Other Government Grants and subsidies	4 360 246	9 732 173
	72 935 857	**49 175 066**

Figures in Rand	2010	2009

26. Other revenue

Administration and management fees received - third party	1 109 697	1 871
Commissions received	218 240	185 733
Sundry income	4 103 359	249 772
	5 431 296	**437 376**

Included in sundry income is an amount of R3 731 284 which relates to VAT on the MIG grant which accrued to the municipality in terms of MFMA Circular number 51.

27. General expenses

Advertising	147 028	95 876
Auditors remuneration	1 017 484	920 890
Bank charges	134 122	382 861
Cleaning	14 332	152 871
Consulting and professional fees	824 966	431 919
Consumables	184 738	133 233
Entertainment	14 791	16 486
Hire	-	500
Insurance	417 074	349 100
Conferences and seminars	295 836	235 075
Lease rentals on operating lease	198 820	97 468
Marketing	16 482	21 261
Magazines, books and periodicals	12 701	5 296
Fuel and oil	673 568	858 879
Postage and courier	9 546	57 976
Printing and stationery	241 182	120 699
Protective clothing	5 832	4 049
Security (Guarding of municipal property)	505 786	350 515
Subscriptions and membership fees	209 546	98 290
Telephone and fax	1 043 160	971 410
Transport and freight	172 950	134 380
Training	352 135	302 312
Travel - local	843 892	505 018
Electricity	326 971	264 489
Housing	-	307 604
Expenditure - government grants	4 314 237	10 354 242
Other	1 235 057	1 028 839
	13 212 236	**18 201 538**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

28. Employee related costs

Basic	(3 292 897)	9 771 468
Bonus	669 315	689 502
Medical aid	633 361	1 574 204
UIF	92 930	81 500
WCA	-	118 426
SDL	169 771	148 470
Leave pay	531 012	162 194
Pension	1 834 215	1 376 672
Travel, motor car, accommodation, subsistence and other allowances	676 399	377 792
Overtime payments	857 881	490 205
Acting allowances	(59 245)	113 233
Transport allowance	632 890	676 915
Housing benefits and allowances	307 842	153 922
Industrial Council contributions	4 527	3 712
Telephone allowance	135 708	116 979
Standby allowance	325	3 903
	3 194 034	**15 859 097**

Employee costs for the current financial year includes the effects of a revaluation of the provision for post-retirement medical aid resulting in a decrease of R15 520 180 in the Defined Benefit Obligation (note 7) and total employee costs.

Remuneration of municipal manager

Annual Remuneration	516 924	498 399
Travel, motor car, accommodation, subsistence and other allowances	202 770	150 000
Performance and other bonuses	-	75 089
Contributions to UIF, Medical and Pension Funds	117 638	110 662
	837 332	**834 150**

Remuneration of chief finance officer

Annual Remuneration	457 873	387 069
Travel, motor car, accommodation, subsistence and other allowances	203 094	88 804
Performance and other bonuses	-	55 831
Contributions to UIF, Medical and Pension Funds	100 194	89 168
	761 161	**620 872**

Remuneration of technical services manager

Annual Remuneration	402 209	316 199
Travel, motor car, accommodation, subsistence and other allowances	157 417	156 631
Contributions to UIF, Medical and Pension Funds	115 437	36 356
	675 063	**509 186**

Remuneration of corporate services manager

Annual Remuneration	402 854	353 364
Travel, motor car, accommodation, subsistence and other allowances	211 379	137 892
Performance and other bonuses	-	88 561
Contributions to UIF, Medical and Pension Funds	117 719	68 978
	731 952	**648 795**

Remuneration of community services manager

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
28. Employee related costs (continued)		
Annual Remuneration	117 229	108 989
Travel, motor car, accommodation, subsistence and other allowances	21 000	32 778
Contributions to UIF, Medical and Pension Funds	30 537	16 999
	168 766	**158 766**

Remuneration of IPED manager

Annual Remuneration	402 482	145 373
Travel, motor car, accommodation, subsistence and other allowances	153 926	54 630
Contributions to UIF, Medical and Pension Funds	118 656	33 428
	675 064	**233 431**

Remuneration of strategic manager

Annual Remuneration	404 545	373 656
Travel, motor car, accommodation, subsistence and other allowances	278 430	173 009
Performance and other bonuses	-	89 340
Contributions to UIF, Medical and Pension Funds	113 101	13 570
	796 076	**649 575**

29. Remuneration of councillors

Mayor	573 760	519 183
Executive Committee Members	1 203 918	1 059 064
Speaker	462 602	406 027
Councillors	3 693 353	3 767 816
	5 933 633	**5 752 090**

In-kind benefits

The Mayor and Speaker are full-time. The Mayor and Speaker are provided with offices and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle and a driver for official duties.

The Councillors Remuneration includes a reversal of an over provision of R200 143 in the prior year in terms of a provision in 2009 for back pay.

30. Debt impairment

Debt impairment	12 284 024	(2 785 442)
Contributions to debt impairment provision	76 116	-
	12 360 140	**(2 785 442)**

The impairment for debtors has increased significantly in the current year due to the method of the calculation that was changed.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

31. Investment revenue

Dividend revenue		
Unit trusts - Local	-	9 830
Interest revenue		
Unit trusts	-	3 851 690
Bank	2 386 558	58 003
	2 386 558	**3 909 693**
	-	9 830
	2 386 558	3 909 693
	2 386 558	**3 919 523**

32. Finance costs

Bank	-	94
Interest cost - PRMA liability	46 784	1 476 482
	46 784	**1 476 576**

33. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	343 996	390 522
Rental of equipment	87 051	118 759
	431 047	**509 281**
Premises	-	-
Garages and parking	-	-
Facilities and equipment	431 047	509 281

34. Bulk purchases

Electricity	5 062 196	4 114 266

35. Cash generated from operations

Surplus	49 102 804	17 786 994
Adjustments for:		
Debt impairment	12 360 140	(2 785 442)
Movements in operating lease assets and accruals	(10 381)	-
Movements in retirement benefit assets and liabilities	(15 520 180)	2 494 981
Movements in provisions	88 093	(856 160)
Changes in working capital:		
Inventories	(20 582)	(145 012)
Trade and other receivables from exchange transactions	(534 672)	871 298
Other receivables from non-exchange transactions	(1 967 128)	(3 010 125)
Consumer debtors	(7 629 524)	(5 653 232)
Prepayments	(7 204 905)	-
Trade and other payables from exchange transactions	1 499 207	2 704 964
VAT	(5 157 993)	1 001 639
Unspent conditional grants and receipts	(3 338 554)	5 213 446
Consumer deposits	(3 650)	-
	21 662 675	**17 623 351**

Figures in Rand	2010	2009

36. Commitments

Authorised capital expenditure

Already contracted for but not yet completed		
• Property, plant and equipment	18 682 694	21 059 613

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, and existing cash resources.

Operating leases – as lessee (expense)

Minimum lease payments due		
- within one year	101 619	165 135
- in second to fifth year inclusive	36 648	138 267
	138 267	**303 402**

Operating lease payments represent rentals payable by the municipality for certain of its buildings and office equipment. Leases are negotiated for an average term of one to three years. Certain leases have fixed monthly payments and others are escalating at 12% per year. No contingent rent is payable.

Operating leases – as lessor (income)

Minimum lease payments due		
- within one year	317 296	31 948
- in second to fifth year inclusive	873 367	-
- later than five years	536 367	-
	1 727 030	**31 948**

Certain of the municipality's properties are leased to third parties to generate rental income. Leases receipts escalate annually on average by 10%. Lease agreements are non-cancellable and have terms from 3 to 9 years. There are no contingent rents receivable.

37. Contingencies

Various litigation matters are in the process and the municipality's lawyers are dealing with them on behalf of the municipality. The following is a breakdown of the matters:

- George vs Emalahleni municipality. The matter relates to an unfair dismissal of an employee. The amount claimed is approximately R50 000.
- M.P Hoco vs Emalahleni municipality. The matter relates to a dispute over the payment to the plaintiff, Mr Hoco, by the municipality for the construction of certain fencing completed by the plaintiff on the municipality's behalf. The amount claimed is R81,892.
- AL van Heerden vs Emalahleni municipality. The matter relates to a dispute over the municipality's right to mine sand at the plaintiff's farm. The municipality had an agreement with the farm's former owner. The amount of the claim is not known yet.
- Emalahleni muncipality vs Ikamva Construction. The defendant failed to complete a construction project. The amount claimed is R358,820.

The outcome of none of the above matters can be reliably estimated.

The municipality is in the process of assessing the performance of its managers in order to establish whether managers are eligble for performance bonuses. No provision for performance bonusses has been made to date. It is anticipated that if performance bonuses would be awarded, it would be more or less in line with the 2009 bonus payout of R250,000.

38. Related parties

No related party transactions.

Figures in Rand	2010	2009

39. Prior period errors / adjustments

The municipality's Finance lease obligation was incorrectly calculated on a fixed instalment per month instead of a 10% escalation per year. An adjustment was made to rectify this. The net value of the asset leased / financed was also adjusted to reflect the change.

In the prior year's financial statements the balance of the 'Accrued leave pay' had been disclosed as R629 085. During the current financial year it was established that this balance had been understated in the prior year by R31 992.

The 'Trade and other payables from exchange transactions' had previously been disclosed as R3 276 919. During the current year it was established that this balance had been understated in the prior year by R210 498.

The comparative figure for the total provision of the landfill site rehabilitation has previously been reported as R7 089 498, which included an amount of R860 000 for the rehabilitation of the Dordrecht site. This amount was reported on the incorrect assumption that the landfill site in Dordrecht will remain operational and that there would be less rehabilitation, necessary in the short term due to non-closure. However, during the current financial year it was established that waste has not been dumped at the legal demarcated area for waste disposal and therefore the current site in Dordrecht will also have to be closed within the short term. This has lead to the increase in the provision for the landfill site rehabilitation at the Dordrecht site to R3 150 000 to be on par with the provision for the closure of the other two sites (the corresponding asset (landfill site) under Property, plant and equipment have also been adjusted). Furthermore, in the prior financial year a discounting of the landfill site provision to the amount of R70 502 was calculated, and credited to the provision. Due to the aforementioned facts, this amount has been eliminated and the adjustment has been made in the comparative figure.

Previously electricity prepaid vouchers to the amount of R60 486 were not accounted for. Inventories have therefore been adjusted.

The result of the adjustments are as follows:

Statement of financial position		
Property, plant and equipment	-	2 299 185
Finance lease obligation	-	(52 015)
Accrued leave pay	-	(31 992)
Trade and other payables from exchange transactions	-	(210 498)
Opening Accumualted Surplus or Deficit	-	18 781
VAT payable	-	3 144
Provision for landfill site rehabilitation	-	(2 360 502)
Inventories	-	60 486
Statement of financial performance		
Employee related costs	-	31 992
Finance costs: Finance lease	-	24 049
General expenses	-	207 354
Discounting - provision for landfill site rehabilitation	-	(70 502)
Bulk purchases (Electricity)	-	(60 486)

Cash flow statement

The comparative figures in the Cashflow statement have been adjusted accordingly.

40. Comparative figures

Certain comparative figures have been reclassified - the effect of the reclassification is analysed below:

Consumer debtors were previously incorporated in Trade and other receivables from exchange transactions. The comparative figures have been reclassified in order to separately disclose amounts due from Consumer debtors.

The municipality's investment in a Standard Bank Money market fund had previously been classified under Other financial assets. Due to the liquid nature of the investment it should have been classified under Cash and cash equivalents in the prior year. The comparative figures have therefore been reclassified.

The Chris Hani agency account for water and sanitation services had previously been classified under Other current assets.

Figures in Rand		2010	2009

40. Comparative figures (continued)

The nature of this debtor warrants disclosure under Other receivables from non-exchange transactions and the prior year comparative figures for this debtor has therefore been reclassified.

Previously loans to managers and employees were seperately disclosed on the face of the statement of financial position. The current year outstanding amount and corresponding prior year amount have been re-classified as Other receivables from non-exchange transactions.

The prior year figure for the Retirement benefit obligation have been adjusted to reflect the current portion.

The effects of the reclassification are as follows:

Statement of financial position		
Trade and other receivables from exchange transactions	-	(8 438 674)
Consumer debtors	-	8 438 674
Other financial assets	-	(37 203 489)
Cash and cash equivalents	-	37 203 489
Other current asset	-	(27 496 556)
Loans to managers and employees	-	(161 844)
Other receivables from non-exchange transactions	-	27 658 400
Current liabilities - Retirement benefit obligation	-	(202 363)
Non-current liabilities - Retirement benefit obligation	-	202 363

The comparative figures in the Cashflow statement have been reclassified accordingly.

41. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.

At year end, financial instruments exposed to interest rate risk were as follows:

Financial instrument		
Short term deposits	25 896 531	38 079 458
Finance leases	(199 442)	(274 311)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Customers cannot be refused basic services and so constitutes a serious credit risk. A credit control policy is in place so as to minimise the risk but is all dependant on the political will for execution to control the credit risk. Large consumers may have to produce large guarantees and / or deposits to minimise the credit risk.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2010**	**2009**
Short term deposits	25 896 531	38 079 458

Figures in Rand	2010	2009

41. Risk management (continued)

Consumer debtors	3 708 058	8 438 674
Trade and other receivables	33 053 998	27 945 498

42. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding from various spheres of Government for the ongoing operations of the municipality.

43. Events after the reporting date

There are no events to report upon.

44. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	-	46 900

A payment was made to a fraudster posing as a creditor of the municipality. The issue was reported to the police. An internal investigation was done and there was no need for any disciplinary action against employees.

45. In-kind donations and assistance

None.

46. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	165 315	89 559
Amount paid - current year	(165 315)	(89 559)
	-	**-**

Audit fees

Current year fee	1 017 484	920 890
Amount paid - current year	(1 017 484)	(920 890)
Closing balance	**-**	**-**

PAYE and UIF

Current year payroll deductions	3 972 097	3 054 407
Amount paid - current year	(3 972 097)	(3 054 407)
	-	**-**

Pension and Medical Aid Deductions

Current year payroll deductions	4 887 624	3 512 302
Amount paid - current year	(4 887 624)	(3 512 302)
	-	**-**

Figures in Rand	2010	2009

46. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	3 069 768	-
VAT payable	-	2 088 225
	3 069 768	**2 088 225**

Net VAT output payables and VAT input receivables are shown in notes 12 and 19.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2010:-

30 June 2010	**Outstanding less than 90 days**	**Outstanding more than 90 days**	**Total**
S.M. Limba	-	11 065	11 065

30 June 2009	**Outstanding less than 90 days**	**Outstanding more than 90 days**	**Total**
S.M. Limba	-	14 060	14 060
M. Godla	-	650	650
	-	**14 710**	**14 710**

47. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E1 for the comparison of actual operating expenditure versus budgeted expenditure.

48. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix E2 for the comparison of actual capital expenditure versus budgeted expenditure.

49. Reconciliation between budget and statement of financial performance

Reconciliation		
Net income/loss for the period	49 102 800	-
Add: Saving in (expenses) / increase in (income):	-	-
Property rates	1 234 567	-
Other income	3 378 229	-
Debt impairment	9 284 173	-
Less: Increase in (expenses) / decrease in (income):	-	-
Employee Costs	(8 404 322)	-
Government grants	(4 330 535)	-
Repairs and maintenance	(2 338 375)	-
Operating grant expenditure	(21 623 812)	-
General expenditure	(17 758 583)	-
Net surplus as per budget	**8 544 142**	**-**